

**Emerging Policy Direction
From the Cost Control/Efficiency Sub Group**

NOTE: The first two policy statements have been previously reviewed and discussed at the full task force meetings. The final two statements have been developed by the sub group for review by the task force.

Financial Sustainability

- Metro's financial model, with current revenue sources and Metro's expense structure, is not sustainable over the long-term. The county and Metro management must control all of the agency's operating expenses to provide a cost structure that is sustainable over time.
- Metro must continue efforts to further reduce costs, create efficiencies and implement the savings strategies, including those identified in the audit. Metro should provide regular updates on the progress it is making and its expected timetable to implement the 2009 audit findings. Additional cost control and efficiency measures could free up resources to increase the amount of service provided, reduce the scale of needed hours of service cuts or reduce the amount of new revenue needed to sustain or expand existing service.
- (New) Metro should explore opportunities to provide alternative service delivery models, including contracting out for some of its underperforming fixed route services. Preliminary analysis suggests that additional contracting out could create some financial efficiencies for Metro. However, further analysis will have to consider implications of existing contracts and agreements, quality and availability of service providers, and consistency with county policies. Any contracting out of services should be consistent with broad labor harmony principles.
- (New) Metro's operating budget includes nearly \$12 million in charges for county overhead, and approximately \$42 million in charges for internal services (services Metro purchases from various county departments). The methodologies for how these charges are allocated to Metro vary. Overhead charges are based upon Metro's FTE count, Metro's budget as a percentage of the County's budget (1), and other means. The internal services charges tend to be based on the actual recorded value of services provided, although in several cases proxies are used to estimate actual services. The overhead charges for county agencies that provide services to Metro as "enterprise" functions (e.g. the departments that charge Metro for internal services) become particularly difficult to track. In short, the internal service and overhead allocation charges are complex and not transparent.

The county should be able to provide the public with clear explanations for how and why overhead and internal service charges are allocated to county departments. In addition, in these difficult economic times, the county must continue to explore ways to reduce overall overhead and internal service charges. There must be more direct accountability for the control of overhead costs because the agencies that have to pay for those costs (such as

Metro) either do not have, or have not been granted the option of finding alternative, lower cost providers of service.

- (1) It is not clear that these percentages equate to the relative costs of providing those services to Metro, although many of those costs are difficult to determine, and in some cases the cost differences may not be worth the cost of assessing them.

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